Duchy Trachtenberg

County Council

Montgomery County, Maryland

Management and Fiscal Policy Update

MFP Committee News from the Chair

June 29, 2010

NOTE: Councilmember Duchy Trachtenberg is providing regular updates of the work of the County Council s Management and Fiscal Policy (MFP) Committee as it considers a range of key issues facing the Council and Montgomery County. The purpose of these updates is to provide Montgomery County residents with important information regarding the County s fiscal situation and alternative strategies for addressing our short and long-term fiscal challenges.

Montgomery County Council Approves Six-Year Fiscal Plan and New Reserve Policies; Adopts MFP Committee Recommendations

The Montgomery County Council today approved a Six-Year Fiscal Plan and new reserve policies that will put Montgomery County on a path of fiscal sustainability.

The Management and Fiscal Policy (MFP) Committee, chaired by Councilmember Duchy Trachtenberg, met on June 24th and June 28th to complete its discussion of these important issues. The MFP Committee recommended approval of the Resolution on the Tax Supported Fiscal Plan Summary with amendments. In addition, the MFP Committee recommended a Resolution to approve Reserve and Selected Fiscal Policies and recommended approval of Bill 36-10, Finance Revenue Stabilization Fund (RSF) Amendments.

[T]he MFP Committee took important, strategic steps to place Montgomery County on the road to financial resiliency. We approved new fiscal policies that will define our County as fiscally prudent and economically strong. In addition, we will concentrate on results-based budgeting and performance measures. Montgomery County may not look the same in future years, but our County will emerge financially stronger than ever before.

Balanced Six-Year Fiscal Plan

The Balanced Six-Year Fiscal Plan is designed to help the County achieve a structurally balanced budget for future years. The plan seeks to match expenditures to available revenues without any draw down of reserves or unanticipated revenues.

The balanced fiscal plan recommended by the MFP Committee starts with the Council s final decisions on the FY11 operating budget. Tax Supported Fiscal Plan Summary reflects:

1. Current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators and revenue estimates prepared by the Finance Department.
2. The policy on expanded County reserves established by Resolution and the amendments to the Revenue Stabilization Fund law in Bill 36-10, both of which the Council approved on June 29, 2010.
3. Other specific fiscal assumptions, listed in the summary that are important goals for inclusion in future budgets.

Reserve Policy

The MFP Committee recommended the following amendments to Bill 36-10:

1. Amended the Bill to require a mandatory contribution to the RSF as originally recommended by the Executive (the mandatory contribution will be the greater of two amounts, not the sum of two amounts); and
2. Amended the Bill to require the Council to review relevant economic indicators before approving the transfer of funds from the RSF.

The Resolution would gradually increase the target total reserve over the next 9 years and thereby reduce the revenue available for agency spending. Bill 36-10 would amend the law governing the Revenue Stabilization Fund consistent with the proposed new fiscal policies governing the reserve. Moreover, the Bill would modify the method of determining the mandatory annual contribution to the Fund and remove the current cap on the Fund.

The Montgomery County reserve is currently at 6 percent. A stronger reserve fund benefits the County in several ways, including with bondrating agencies that prefer municipalities to maintain larger reserve funds. These measures will stabilize County finances to withstand future economic challenges.

Definition of Terms:

Revenues*- with regard to the Revenue Stabilization Fund, revenues are defined as income tax, transfer tax, recordation tax, and investment income.*

Reserve *- purpose is to allow for the possibilities that resources will be less than forecast, and that expenses may be more. There are three components of reserve: revenue stabilization fund (RSF), designated reserve, and undesignated reserve.*

Revenue Stabilization Fund (RSF) *- is a fund with an existing balance, not a projected balance. It can only be used in a fiscal year to fund appropriations when revenue is less than projected by more than the amount of the designated plus undesignated reserve. It cannot be used to fund next year s budget.*

Designated Reserve *amount the Council designates for possible appropriation during the year which the Council knows about at the time of designation.*

Undesignated Reserve *is available for appropriations during the year which the Council does not know about when approving the budget, or to offset revenue shortfalls.*

Some Policy Issues:

1. Should the Council adopt a policy goal of a structurally balanced budget?
   The committee agreed to a structurally balanced budget.
2. Should the total reserve have a maximum size?
   The committee agreed to not impose a maximum size on the total reserve.
3. Should the Council establish a priority for the use of one-time revenues?
   The committee agreed on priority considerations to unfunded liabilities for OPEB and the retirement funds with non-recurring revenues.
4. Should all of the policy statements be restated as goals rather than requirements?
   The committee agreed that the policy statements should be restated as goals.

At the June 28th meeting, the MFP Committee further clarified some remaining issues:

1. What is the difference between the use of the General Fund reserve and the RSF?
   The total reserve is made up of the General Fund reserve and the RSF. The Council must approve use of the RSF, and only to support appropriations that have become unfunded. The General Fund reserve can be used to: fund additional unbudgeted expenses, such as a major snow storm; and to offset a shortfall in revenue, such as occurred in FY10 with the income tax.
2. Should the mandatory contribution to the RSF be increased if the County has excess revenues until the 10% AGR target is met?
   The Committee recommended to approve a mandatory contribution that is the greater of 50% of excess revenue or .5% of AGR until the 10% target is met.

Council Staff represented at the MFP meetings included Steve Farber, Council Staff Director; Robert Drummer, Senior Legislative Attorney; Chuck Sherer, Legislative Analyst; Karen Orlansky, Office of Legislative Oversight Director and Leslie Rubin, Legislative Analyst. Executive Staff represented at the MFP meetings included Jennifer Barrett, Finance Director; Joseph Beach, Office of Management and Budget Director; Karen Hawkins, Chief Operating Officer and Alex Espinosa, Operating Budget Coordinator.

The MFP Committee includes Councilmembers Duchy Trachtenberg, Valerie Ervin and Nancy Navarro. The full County Council took action on both resolutions and Bill 36-10 on Tuesday, June 29th. All County Council sessions are open to the public. In addition, County Council sessions are televised live by County Cable Montgomery (CCM Cable Channel 6 on Comcast and RCN, Channel 30 on Verizon) and are available via streaming through the County Web site.

Please contact Laurie Mintzer Edberg, Director of Management and Fiscal Policy, at 240-777-7948 (direct dial) or laurie.edberg@montgomerycountymd.gov with any questions regarding this MFP session.